UK P&I CLUB

2013 Review of the Year

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CONTENTS

FINANCIAL OVERVIEW

$4.11

Free reserves and hybrid capital per gross ton

A- POSITIVE OUTLOOK

Standard & Poors

494

Free reserves and hybrid capital
$m

104%

Combined ratio
(excluding mutual premium discount)

INTRODUCTION

Listening

For us, everything begins with listening. By listening to our members and their brokers, we identify those areas where we must improve.

It's what we do next that matters...

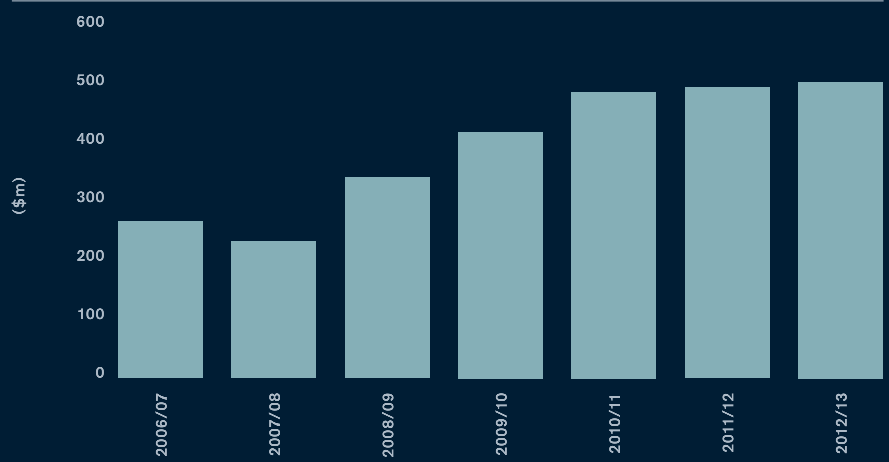
FINANCIAL HIGHLIGHTS

Surplus of $9.5m for this year increasing free reserves and hybrid capital to a new high of $494m.

FINANCIAL STRENGTH

- Free reserves and hybrid capital increased from $486m to $494m
- Free reserves and hybrid capital of $4.11 per gross ton
- S&P rating: A- Positive outlook

Capital & reserves for financial years 2006-2012



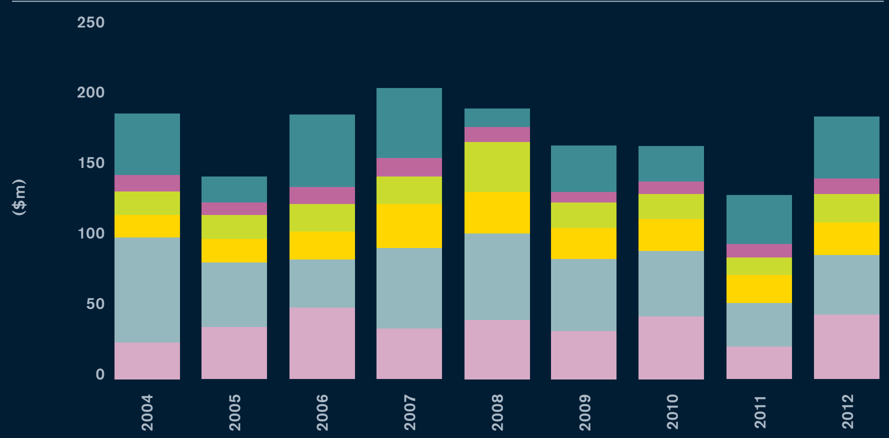
Key

Free reserves and hybrid capital

CLAIMS VALUES

- 2012 claims above $0.5m significantly higher than 2011
- Attritional claims frequency remains low, but claims values drifting higher
- Overall 2012 a more normal year, compared to exceptionally good 2011
- Pool credit balance significantly in excess of $100m

Net notified claims at 12 months for policy years 2004-2012



Key

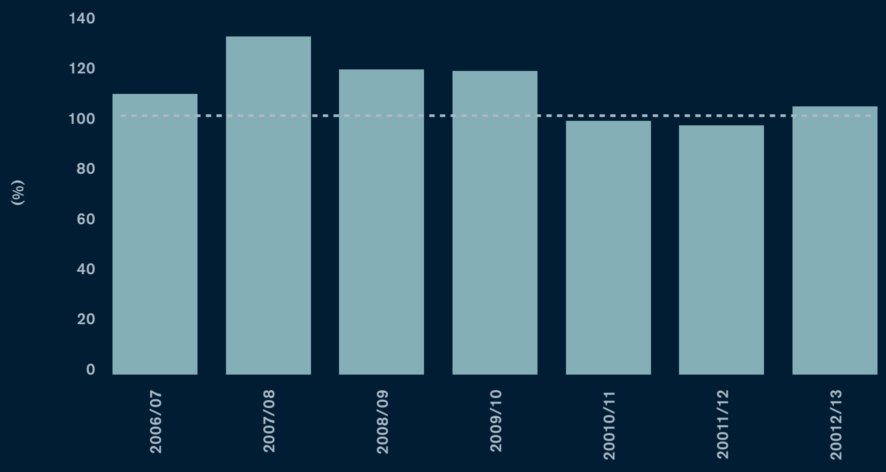
Pool
Charterers
Injury
Illness
Casualty
Cargo

UNDERWRITING DISCIPLINE

- Last three financial years combined ratio averaged 100%
- 2012/13 financial year combined ratio – 104%
- Underwriting discipline maintained

Key
- Combined ratio (%) excluding supplementary premium and mutual premium discount
- Target

Combined ratio for financial years 2006-2012

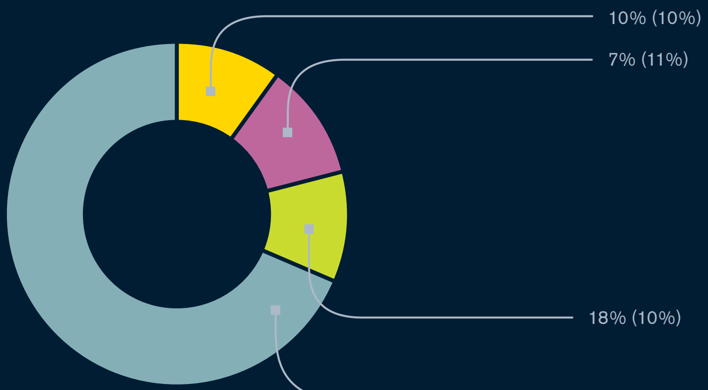


INVESTMENT PORTFOLIO

- Investment return of $39.6m for 2012/13
- 3.7% return
- Conservative asset allocation

Key
- Absolute Return Funds
- Cash
- Equities
- Fixed Interest

Asset portfolio

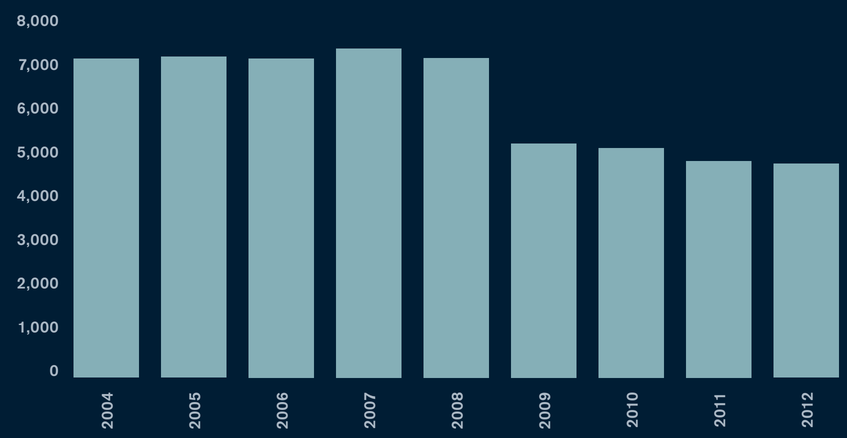


Feb 2012 figures are shown in brackets

CLAIMS FREQUENCY

- Significantly reduced over last four policy years due to weakened state of shipping market
- Frequency down for all classes of claim
- Anticipated to increase when shipping markets recover

Number of claims at 12 months by policy year



A SOLID RESULT

"The Club's extremely strong capital adequacy, under our model sets it apart from its peers and from much of our mutual rated universe".

S&P's report dated November 2012

This year the Club has produced a surplus of $9.5 million, increasing the free reserves and hybrid capital of the UK Club to a new high of $494 million. Underpinning this result was a respectable underwriting performance in the face of mounting claims costs, and an investment return of 3.7%, equivalent to $39.6 million.

Overall this was a good outcome, but it does not allow for complacency. The combined ratio for the financial year was 104% (excluding the mutual premium discount) which is within the Club's tolerances in the short term, taking into account the current elevated claims environment. However, the increased claims on the 2012 policy year are a warning that, despite weak global economic growth, claims inflation, particularly in the higher value claims, continues to be present. It is therefore essential to maintain a disciplined approach to underwriting in the coming years to achieve the target of a balanced underwriting result over the claims cycle.

On S&P's model the Club's capital position remains comfortably within the AA range.

Standard & Poors Rating

In November of last year S&P upgraded the Club's A- rating to "positive outlook". The UK Club was the only International Group club to receive a positive outlook during 2012 and it augurs well for the future. This move by S&P recognises the advances the Club has made in its capital, underwriting and enterprise risk management over the past five years.

...the free reserves and hybrid capital of the UK Club to a new high of $494 million.

$494M

A SUCCESSFUL RENEWAL WITH CONTROLLED GROWTH

The market's confidence in the Club produced one of the Club's most successful renewals for a number of years.

The Club does not believe in growth for growth's sake.

The market's confidence in the Club produced one of the Club's most successful renewals for a number of years. Before adjustments for renewal terms (typically increased deductibles) and the impact of the increased cost of the International Group's excess of loss reinsurance programme, premium increased by around 6%.

Meanwhile mutual owned tonnage grew to 120 million GT. The growth in mutual owned tonnage at the renewal was just under 3 million GT. In addition, the charterers' book, which has been a success story for the Club over the past few years, stands at over 80 million GT.

While this may appear to be a modest level of growth compared to the scale of the movement of tonnage reported elsewhere in the market, it reflects the Club's aim to grow with quality tonnage at the right premium rating. The Club does not believe in growth for growth's sake.

Today, about 70% of the Club's entries by premium involve a broker or an intermediary in some capacity. In 2012, the Club worked with more than 75 intermediaries, many of whom have long standing relationships with the entered Members and with the Club. Particular attention was paid during the year to ensure that the brokers were provided with information they required to advise their clients, whether through personal meetings, publications, on-line tools, events or services.

CLAIMS

In a rising claims environment, the claims trends across all categories and ages of ships will be monitored closely to ensure balanced underwriting and effective loss prevention advice.

The claims development of the most recent policy years during the last financial year has been particularly encouraging with favourable performance on the 2007, 2008 and 2011 policy years. In overall terms the 2011 policy year is developing in line with the 2003 policy year, which was one of the best of recent times. In contrast the 2012 policy year is likely to be significantly more costly than 2011, (see figure 6). At the twelve month stage net notified claims for 2012 are $186 million compared to $129 million and $172 million in 2011 and 2010 respectively. This is due principally to the incidence of larger, more random claims, rather than an increase in claims frequency (see figure 7).

...the 2012 policy year has seen a much higher level of activity than 2011, which was a particularly unusual and benign claims year.

The frequency of notified claims below $0.5 million in 2012 are at a similar level to the 2011 policy year at 12 months. This is to be expected given the depressed levels of shipping activity. However, the value of these claims has increased slightly (see figure 8). At certain points in the cycle, it is easy to fail to respond to gradual changes in activity, which can be masked by an assumption that current industry conditions will prevail. Moreover, it is usual that signs of change can be irregular and inconsistent before a clear trend emerges. Therefore, the Club's strategic planning takes these factors into account in managing its capital, setting the general increase and deductible levels and managing the extremes of the claims through the purchase of reinsurance.

For notified claims in excess of $0.5 million the 2012 policy year has seen a much higher level of activity than 2011, which was a particularly unusual and benign claims year. Taking the longer term perspective the 2012 policy year may be more representative of the cost of an average year for the Club at this point in the cycle and this is certainly appears to be borne out in figure 9.

The random nature of events becomes more evident at the Pool level and figure 10 shows the development of the Club's pool contributions (on a claims notified basis) since 1998. Recent years have been marked by some significant claims, though the number and value of those claims has differed considerably. The Club's record on the Pool continues to be exceptionally good with its credit balance now standing well in excess of $100 million. The impact of this and other changes to the Pooling mechanism have served to reduce the Club's Pool share significantly. In addition to the benefit that this brings, the Club has protected itself by purchasing protection for its own and its share of other clubs' Pool claims, and it is projected that this will result in a material recovery on the 2012 policy year, effectively capping the exposure around current net notified levels.

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Claims types

An analysis of claims by type brings out some interesting trends. For the cargo category, more recent financial years have seen material reductions in estimates on large cargo claims and a stable development of attritional claims in this category below $0.5 million. The principal reason behind the improvement on the larger claims arises from significant third party recoveries made by the Club.

The second half of last year saw better than expected development on both illness and injury claims across a number of policy years. There is a tendency to be more prudent in reserving for this category, reflecting recent trends of higher claims inflation as well as the impact of some particularly costly cases. Inevitably the marked change in the economic environment has reduced both the frequency and value of such claims, and in the main this category has seen better than expected development. But as mentioned above it is important to remain vigilant against a possible resurgence in claims inflation.

CLAIMS

Figure 6: Total net notified claims for policy years 2004 – 2012 at 20th February 2013.

Key
- 2012
- 2011
- 2010
- 2009
- 2008
- 2007
- 2006
- 2005
- 2004

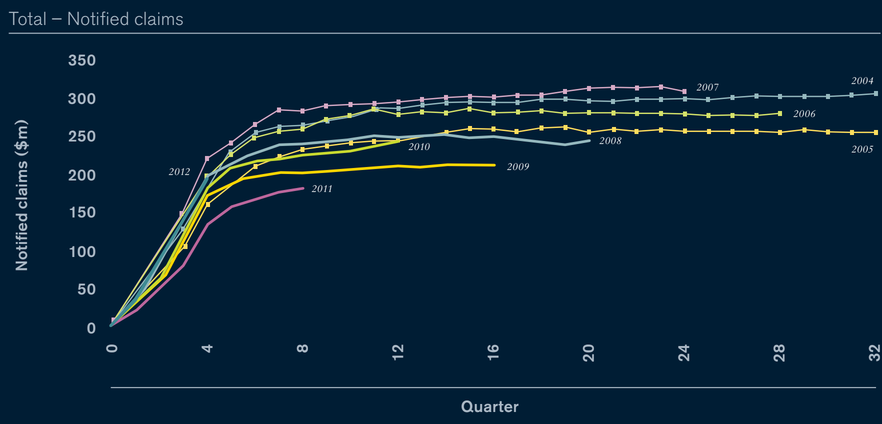


Figure 7: Claims frequency for policy years 2004 – 2012 at 12 months.

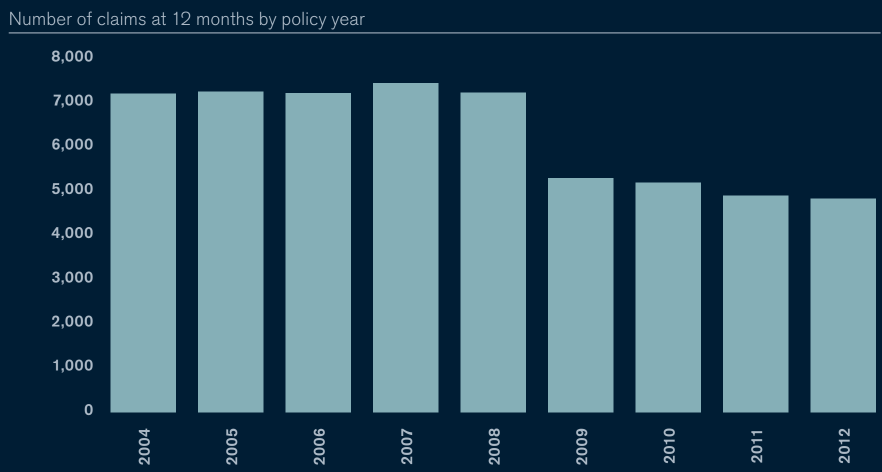
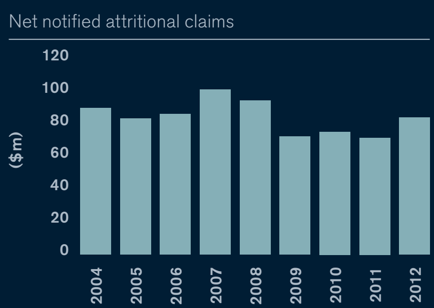


Figure 8: Net notified attritional claims (< $0.5m) for policy years 2004 – 2012 at 12 months.

Figure 9: Net notified large claims (> $0.5m) for policy years 2004 – 2012 at 12 months.



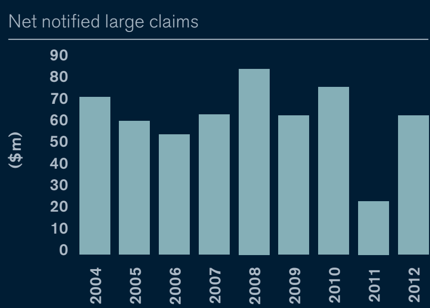
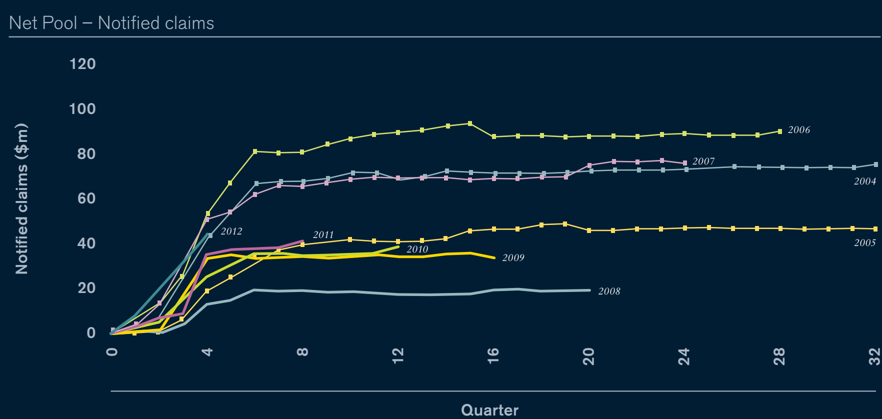


Figure 10: Net notified Pool claims for policy years 2004 – 2012 at 20th February 2013.

Key
- 2012
- 2011
- 2010
- 2009
- 2008
- 2007
- 2006
- 2005
- 2004



INDUSTRY AND INTERNATIONAL MATTERS

As usual the Club was involved with many industry and International Group issues during the year and provided advice to Members where appropriate.

The effect of sanctions on the marine industry, and in particular on marine insurance, became more complex in 2012.

The effect of sanctions on the marine industry, and in particular on marine insurance, became more complex in 2012. For example, the language of regulations on the use of bunkers originating in Iran created uncertainty and the potential for cover of shipowners engaged in lawful trade, who had no knowledge of the source of bunkers stemmed to their vessels, to be jeopardised. The Managers, with other clubs participating in the International Group's Sanctions Working Group, engaged with authorities to seek clarification.

Piracy continues to be a problem, with a growing number of incidents in 2013 in the Gulf of Guinea and off West Africa involving significant cargo theft, and threats and violence against ships crews. The Managers worked with the International Group in the development and promotion of the BIMCO Guardcon standard for contract for the employment of security personnel on board vessels.

The European Union Passenger Liability Regulation (PLR), giving effect in Europe to provisions equivalent to those in the 2002 Athens Convention, came into force on 31st December, 2012. It became clear that there was not a sufficient number of clubs in favour of providing war blue cards to permit Pooling of that risk, and so the Managers worked on alternative reinsurance schemes to ensure that the Club was able to assist members with passenger ships to comply with their blue card obligations.

The Maritime Labour Convention (MLC) will enter into force in August 2013. It is a consolidation of over 60 separate existing ILO standards that have been brought together and modernised in one consolidated instrument. It presents a particular challenge to shipowners and P&I insurers as shipowners will have to comply with many operational and technical requirements; it also introduces new provisions on financial security in respect of liabilities described in the Convention.

The Club has amended its rules to allow certificates of entry to be used as evidence of financial security required at this stage under the Maritime Labour Convention.

The Club has amended its rules to allow certificates of entry to be used as evidence of financial security required at this stage under the MLC. Three years after the MLC enters into force, it will be amended to include more detailed requirements for financial security in respect of repatriation and death or long term disability. While this is not of immediate concern, it should be noted that more stringent financial security requirements will eventually apply.

RISK MANAGEMENT AND REINSURANCE

The Club's reinsurance programme protects it from the impact of a significant surge in claims.

The Club has renewed its own reinsurance programme for the 2013 policy year. This programme, which was designed in 2011 and tested using the Club's internal model, has worked well in 2012. In particular, the Pool protection element of that programme is already expected to provide a significant recovery against the very high Pool costs in 2012. In addition to the Pool protection element, the programme is designed to protect the Club against single major losses and also a materially adverse aggregation of claims within the Club retention.

Reinsurance is just one element of the Club's approach to risk management.

Reinsurance is just one element of the Club's approach to risk management. The UK Club is proud of the steps it has taken to assist Members to reduce their exposure to claims through its extensive loss prevention activity. Loss prevention initiatives range from the "bow-tie" method, which offers practical guidance in tackling the root causes of claims, to regular updates on the Club's website of the latest types of claims affecting Members and how they can be avoided. During 2013 the loss prevention section of the website will be redeveloped to make this information even easier to access. The programme of ship visits will also continue in 2013. This programme, which began in 1990, has evolved over time into a cooperative exercise between the Club and its Members to help raise standards and ensure a common approach to quality issues. In these difficult times for all shipowners, there is a need to make sure that vigilance is maintained in standards of operation and maintenance if a spike in preventable claims, when economic conditions improve, is to be avoided. A tangible measure of the Club's success to date in this area can be found, for example, in the rate of deficiencies per port state control inspection of bulkers entered in the UK Club, which at 1.82 remains one of the lowest in the International Group.

INVESTMENTS

The investment portfolio returned 3.7% during the financial year, adding $39.6 million to the Club's assets.

As can be seen from the table, the Club took on a little more risk in its portfolio than in the previous year. The equity position was higher during the year, being reduced shortly before the year end after a strong run in the markets.

2012 was a year when risk assets performed well and the investment portfolio benefitted accordingly, despite maintaining a relatively conservative asset allocation. Government bond markets provided very low returns although greater returns were obtained from longer dated bonds and corporate bonds, particularly those with lower credit ratings. Equity markets produced healthy returns in dollar terms with the S&P 500 rising 15.0 % and the Eurostoxx 50 rising 12.6 % with a strong recovery in the second half of the year. Emerging markets, despite continuing to produce healthy levels of economic growth, underperformed other equity markets.

Investments portfolio

REGULATION AND GOVERNANCE

The Club's internal model has put the Club in a robust position to demonstrate to regulators and rating agencies the strength of its risk management.

Progress on Solvency 2 in Europe has stalled with the previous 1 January 2014 deadline now appearing unrealistic. Policymakers have been held back in their desire to deliver Solvency 2 as one package, due to issues surrounding long term guarantees which principally affect the life insurance industry. Consultations are now going on to put in place a revised date and also bring in interim compliance measures. The effect on the Club has been that the expected approval for its own internal model by the Prudential Regulation Authority (the successor to the Financial Services Authority), which was expected early in 2013, is now anticipated to be later in the year.

...the Club has been making extensive use of the internal model across the business.

Despite this, the Club has been making extensive use of the internal model across the business. The model has been used for allocating capital between entities as part of the Club's successful restructuring at 20 February, 2013. Elsewhere, it has been used to structure the purchase of the Club's reinsurance programme, and as a result Directors have been able to see the impact of different reinsurance proposals on the combined ratio and on various regulatory and rating agency capital measures.

The restructuring of the Club went ahead as planned during last year, with the aim of improving the Club's capital efficiency, streamlining governance and reducing compliance costs. The insurance business of UK (Bermuda), other than of its Hong Kong, Japan and Singapore branches, transferred at 20 February 2013 to the UK (Europe) Club. Members' terms of entry, cover, premium and service were unaffected by the change. The remaining insurance business of UK (Bermuda) is planned to transfer to new Asian branches of UK (Europe) by February 2014.

LISTENING

The Club's disciplined approach to all financial matters has not come at the cost of its traditional role.

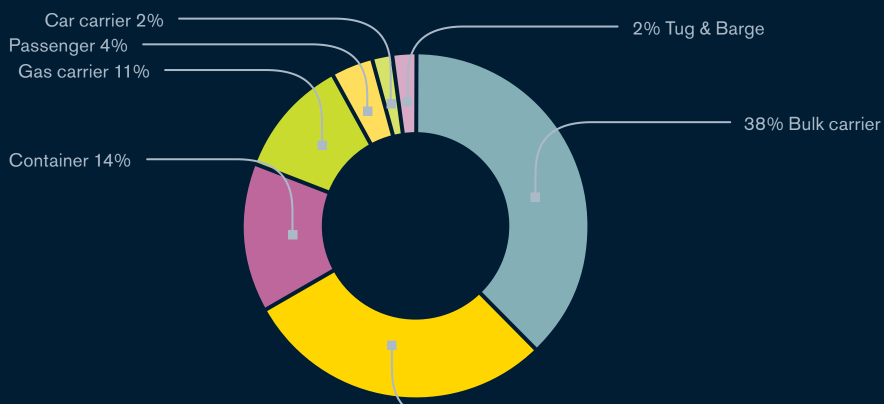
The Club remains committed to being the leading shipowner controlled provider of P&I insurance.

The Board is very aware of the need to strike a sensible balance between the financial requirements of the Club on the one hand and the needs of the Members on the other, in what is a very weak market for most shipping sectors.

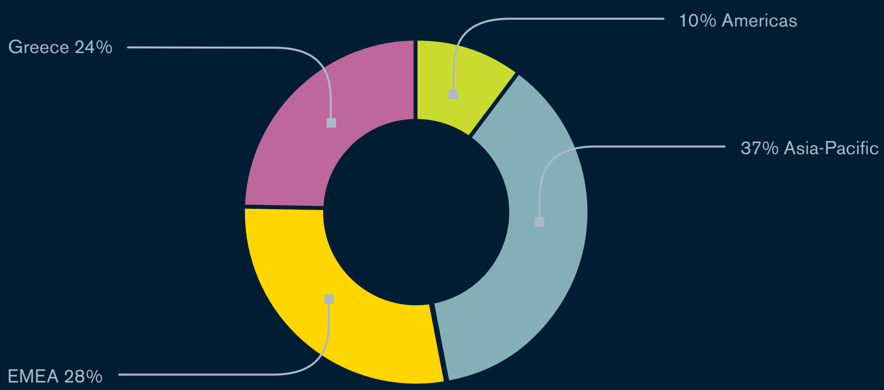
It was with this in mind that the Board, in setting the general increase of 7.5% for the 2013 policy year, decided to declare a mutual premium discount of 2.5% on the 2011 policy year which was showing a respectable surplus due to unexpectedly low claims in that year. This discount amounted to a reduction of 10% on the final, fourth instalment of that year's premium. The Club was thereby able to return some of the capital built up over the past few years without compromising the need to keep premiums moving forward.

This desire to maintain the Club's traditional role and to enhance the service provided has encouraged the Club to conduct another Member and Broker Satisfaction Survey. The purpose of the survey is two-fold: to find out what progress has been made since the last survey in 2011 and to establish what more needs to be done to improve performance. Of course, a survey can only tell a part of the story and will not detract from the need to listen on a daily basis to the views of the Members and brokers. The survey does however give the Board and the Managers a means of measuring performance and it helps to set targets for improvements.

The Club remains committed to being the leading shipowner controlled provider of P&I insurance. That is the guiding principle and affects everything the Club does. Significant strides have been made towards that goal and this will continue in the years to come.



UK Club entries by trade type (GT)



UK Club entries by region (GT)

3,455

Number of ships

120m

Entered tonnage

UK P&I CLUB

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UK P&I CLUB IS MANAGED BY **THOMAS MILLER**